

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05

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R 130227Z APR 76

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 3076

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

CINCPAC

C O N F I D E N T I A L KUALA LUMPUR 2107

CINCPAC ALSO FOR POLAD

E.O. 11652: GDS

TAGS: PFOR, EAID, MY,SU

SUBJECT: MALAYSIANS BARGAIN HARD ON TEMBELING DAM PROJECT

1. IN JULY 1975 A 17-MONTH FEASIBILITY STUDY FOR CONSTRUCTION OF A 150 FEET HIGH DAM ON THE TEMBELING RIVER IN THE JERANTUT AREA OF NORTH EASTERN PAHANG WAS COMPLETED BY THE LENINGRAD DESIGN INSTITUTE. THE DAM, WHICH IT HAS BEEN PUBLICLY ESTIMATED WILL COST MALAY DOLLARS 200 MILLION (U.S. DOLLARS 79 MILLION), WILL INCLUDE HYDROELECTRIC GENERATING FACILITIES WITH AN EVENTUAL CAPACITY OF 75 MEGAWATTS. THE RUSSIANS ARE EXTREMELY INTERESTED IN GETTING THE CONTRACTS TO DO BOTH THE FINAL ENGINEERING STUDY AND TO CONSTRUCT THE DAM, BUT MALAYSIAN GOVERNMENT OFFICIALS ARE KNOWN TO BE RELUCTANT TO AWARD THE CONTRACTS TO THE USSR BECAUSE THEY FEAR ADDITIONAL PERSONNEL WILL FACILITATE SOVIET PENETRATION
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OF LEFT-WING MALAY ORGANIZATIONS. THEY ALSO DO NOT WISH

TO BECOME A FOCUS FOR COMPETITION BETWEEN THE USSR AND CHINA. FINALLY, GOM POLICY IS TO AWARD SEGMENTS OF MAJOR PROJECTS THROUGH INTERNATIONAL TENDER RATHER THAN ON TURNKEY BASIS. A RELIABLE PRESS SOURCE TOLD US RECENTLY THAT THIS RELUCTANCE WAS OVERCOME LAST YEAR BY A LETTER FROM KOSYGIN TO THE FORMER PRIME MINISTER, THE LATE TUN RAZAK, URGING ACCEPTANCE OF THE RUSSIAN OFFER TO HANDLE THE WHOLE PROJECT SO STRONGLY THAT RAZAK DID NOT FEEL HE COULD REFUSE.

2. IN EARLY DECEMBER, FOLLOWING THE KOSYGIN LETTER, THE SOVIET EMBASSY COUNSELOR FOR ECONOMIC AFFAIRS N.I. SKIBINSKI ANNOUNCED THAT IF NEGOTIATIONS WERE SUCCESSFUL SOVIET TECHNICIANS WOULD BEGIN WORK IN FEBRUARY 1976. ON JANUARY 23, 1976, A SMALL ITEM APPEARED IN THE CHINESE DAILY "NANYANG JIH PAO" STATING THAT AN UNIDENTIFIED SOURCE HAD REPORTED THE GOM WAS WAITING FOR A REPLY FROM MOSCOW ON ITS APPLICATION FOR A LOAN TO COVER THE COST OF THE PROJECT. THE REPORT WENT ON TO NOTE THAT THE GOM WOULD MAKE THE RUSSIANS RESPONSIBLE FOR THE WHOLE PROJECT WHICH APPEARED TO BE AN EXCEPTION TO THE USUAL GOM PRACTICE OF APPLYING FOR A CREDIT FROM THE WORLD BANK AFTER FEASIBILITY AND ENGINEERING STUDIES WERE COMPLETED. ON FEBRUARY 8, SKIBINSKI APPARENTLY TOLD REPORTERS OF "SIN CHEW YAT PAO" AND "THE STAR" THAT A TEAM WOULD BE ARRIVING FROM MOSCOW AT THE END OF FEBRUARY OR EARLY IN MARCH TO DISCUSS FINANCING.

3. SKIBINSKI'S ANNOUNCEMENTS WERE SAID TO HAVE IRRITATED THE MALAYSIANS, WHO, ACCORDING TO DIPLOMATIC AND PRESS SOURCES, RESPONDED BY PROPOSING THAT THE RUSSIANS PROVIDE CREDIT FOR THE FULL MALAY DOLLARS 200 MILLION, THAT THE CREDIT BE FOR TWENTY TO TWENTY-FIVE YEARS AT THREE-AND-A-HALF PERCENT INTEREST, AND THAT ALL COST OVER-RUNS BE COVERED BY GRANTS RATHER THAN LOANS. OTHER SOURCES SUGGESTED THAT THE TERMS OF THE GOM REQUEST FOR CONCESSIONAL CREDIT WERE DELIBERATELY MADE EXTREME IN THE HOPE THAT THEY WOULD BE UNACCEPTABLE TO THE SOVIETS, THEREBY AVOIDING TURNKEY SITUATION. ONE SOURCE REPORTED THAT WHEN THIS PROPOSAL WAS LAID BEFORE AMBASSADOR BENDRYSHEV HE BECAME SO ANGRY THAT HE POUNDED ON THE TABLE AND SHOUTED AT THE MALAYS THAT THE

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TERMS THEY ASKED WERE MORE GENEROUS THAN THOSE GRANTED TO ANY OTHER COUNTRY IN THE HISTORY OF SOVIET FOREIGN ASSISTANCE.

4. COMMENT: MOST GOM FOREIGN MINISTRY AND SECURITY OFFICIALS HAVE BEEN LOATH TO SEE THE RUSSIANS EXPAND THEIR PRESENCE IN MALAYSIA IN ANY WAY AND ONLY AGREED TO RUSSIAN HANDLING OF THE FIRST STAGE OF THE TEMBELING PROJECT AFTER STRONG PRESSURE. WITH REGARD TO THE IMPENDING ARRIVAL OF A RUSSIAN

NEGOTIATING TEAM, IT APPEARS THAT THE MALAYSIANS
DO NOT WANT OR EXPECT TO MEET WITH THE TEAM BEFORE
MAY AT THE EARLIEST. IT ALSO APPEARS THAT THE NEW PRIME
MINISTER DATUK HUSSEIN IS LESS INCLINED TO SUCCUMB TO
COMMUNIST PRESSURES FOR FEAR OF LOSING CREDIBILITY IN
THE RADICAL NON-ALIGNED WORLD THAN WAS TUN RAZAK.
THUS THE GOM HAS IN EFFECT TOLD MOSCOW THAT IF IT WANTS
TO BUILD THE DAM IT WILL HAVE TO BE A VIRTUAL
GIFT. WE AWAIT WORD OF THE SOVIET REPLY WITH INTEREST.
UNDERHILL

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Message Attributes

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